

# EGAT Worldwide Assessment of Competitiveness Initiatives

**Interim Briefing**

**CDIE Summer Seminar**

**July 31, 2003**

# Outline of Briefing

- USAID's Competitiveness Portfolio
- Competitiveness around the Globe
- Parameters of Competitiveness Initiatives
- Competitiveness Methodologies
- Results
- Lessons Learned
- Critical Issues and Outstanding Questions
- Next Steps

# USAID's Competitiveness Portfolio

# Overview of USAID's Portfolio

Number of Countries  
undertaking  
Competitiveness  
Initiatives =

26

Approximate Value of  
Competitiveness  
Initiatives =

\$ 57,871,376

# Overview of USAID's Portfolio

## Number of Countries By Regional Bureau

- Africa Bureau: 2
- Asia & Near East (ANE): 9
- Europe & Eurasia (E&E): 13
- Latin America & Caribbean (LAC): 2

# Overview of USAID's Portfolio

## Value of Initiatives By Regional Bureau

- Africa \$ 3,323,895
- ANE \$ 24,635,989
  - Sri Lanka (\$11,453,153)
  - Mongolia (\$4,650,928)
  - Lebanon (\$3,816,282)
- E&E \$ 27,359,514
  - Macedonia (\$11,674,375)
  - Georgia (\$9,000,000 -- estimated)
  - Croatia (\$3,280,716)
- LAC \$ 2,551,978

# Overview of USAID's Portfolio

## Types and Scale of Initiatives

- Major and/or Most Mature Investments
- Moderate and/or Recent Investments
- Introductory or Specialized Efforts

# Overview of USAID's Portfolio

## Major and/or Most Mature Investments

- Lebanon
- Sri Lanka
- Mongolia
- Dominican Republic
- Uganda
- Macedonia



# Overview of USAID's Portfolio

## Major/Most Mature Investments -- Details

- **Lebanon** February 1998 to present
  - Clusters: agroindustry, regional business services (dropped) and tourism
  - Contractor: SRI (with prime, IBM)
- **Sri Lanka** April 1998 to present
  - Clusters: ceramics, coir, IT, jewelry/gems, rubber, spices, tea, tourism
  - Contractor: Nathan Associates, JE Austin
- **Mongolia** October 1999 to present
  - Cluster: cashmere, meat (dropped), tourism
  - Contractor: Nathan Associates, JE Austin

# Overview of USAID's Portfolio

## Major/Most Mature Investments -- Details

- **Dominican Rep.** November 1999 to present
  - Clusters: ecotourism, horticulture, tourism
  - Contractor: Chemonics (with Monitor & JE Austin)
- **Uganda** November 2000 to March 2002
  - Clusters: coffee, cotton, fish
  - Contractor: Carana
- **Macedonia** September 2002 to present
  - Clusters: TBD
  - Contractor: Booz Allen Hamilton with ontheFRONTIER

# Overview of USAID's Portfolio

Moderate and/or Recent Investments

- Croatia
- SE Asia
- Serbia

# Overview of USAID's Portfolio

## Moderate and/or Recent Investments

- **Croatia** April 2001 to August 2003
  - Clusters: ICT, tourism, wood products
  - Contractor: Nathan Associates with JE Austin
- **SE Asia** August 2002 to Sept. 2004  
(Cambodia, Thailand and Vietnam)
  - Clusters: TBD
  - Contractor: Nathan Associates with JE Austin and Kenan Institute Asia
- **Serbia** Sept. 2002 to Sept. 2003
  - Clusters: TBD
  - Contractor: Booz Allen Hamilton with ontheFRONTIER

# Overview of USAID's Portfolio

Introductory or Specialized Efforts -- Types

- Benchmarking and Awareness Building
- Conferences
- Workforce Development Strategies

# Overview of USAID's Portfolio

## Introductory or Specialized Efforts -- Details

- Benchmarking and Awareness Building
  - Bulgaria
  - Kyrgyzstan, Ukraine and Russia
  - SE Europe (Albania, Croatia, Macedonia and Romania)
- Conferences
  - Hungary (NIS Regional)
  - SE Europe
- Workforce Development Strategies
  - Egypt
  - South Africa

# Where Competitiveness Initiatives “Fit”

ENTRY POINTS		EXAMPLES OF DONOR INTERVENTIONS			
<b>CREATING THE FOUNDATIONS FOR ECONOMIC GROWTH ....</b>					
<b>MACRO ENVIRONMENT</b>	<u>Macro-Economic Policy</u>	<u>Governance</u>	<u>Physical Infrastructure</u>	<u>Social Infrastructure</u>	
	Monetary Policy	Civil Society	Power	Education	
	Fiscal Policy	Civil Service Reform	Transportation	Health	
	Trade Policy	Electoral Reform	Telecommunications	Population	
<b>CREATING THE FRAMEWORK FOR BUSINESS DEVELOPMENT ...</b>					
<b>BUSINESS ENVIRONMENT</b>	Privatization	Investment Promotion	Trade Capacity Building		
	Financial Sector Development	Export Promotion	Association Building		
	Commercial Law Reform	Legal and Institutional Reform	Business Development		
		Accounting Reform	Services		
<b>STRATEGICALLY RE-POSITIONING INDUSTRY TO COMPETE IN GLOBAL MARKETS ...</b>					
<b>THE CLUSTER</b>	COMPETITIVENESS INITIATIVES				
<b>STRENGTHENING FIRMS' ABILITIES TO SUCCEED ...</b>					
<b>THE FIRM</b>	Firm Level Technical Assistance		Financial Sector Volunteer Corps		
	International Executive Service Corps		Business Skills Training		
	Free Market Development Advisors		Development Credit Authority		

# Competitiveness Around the Globe



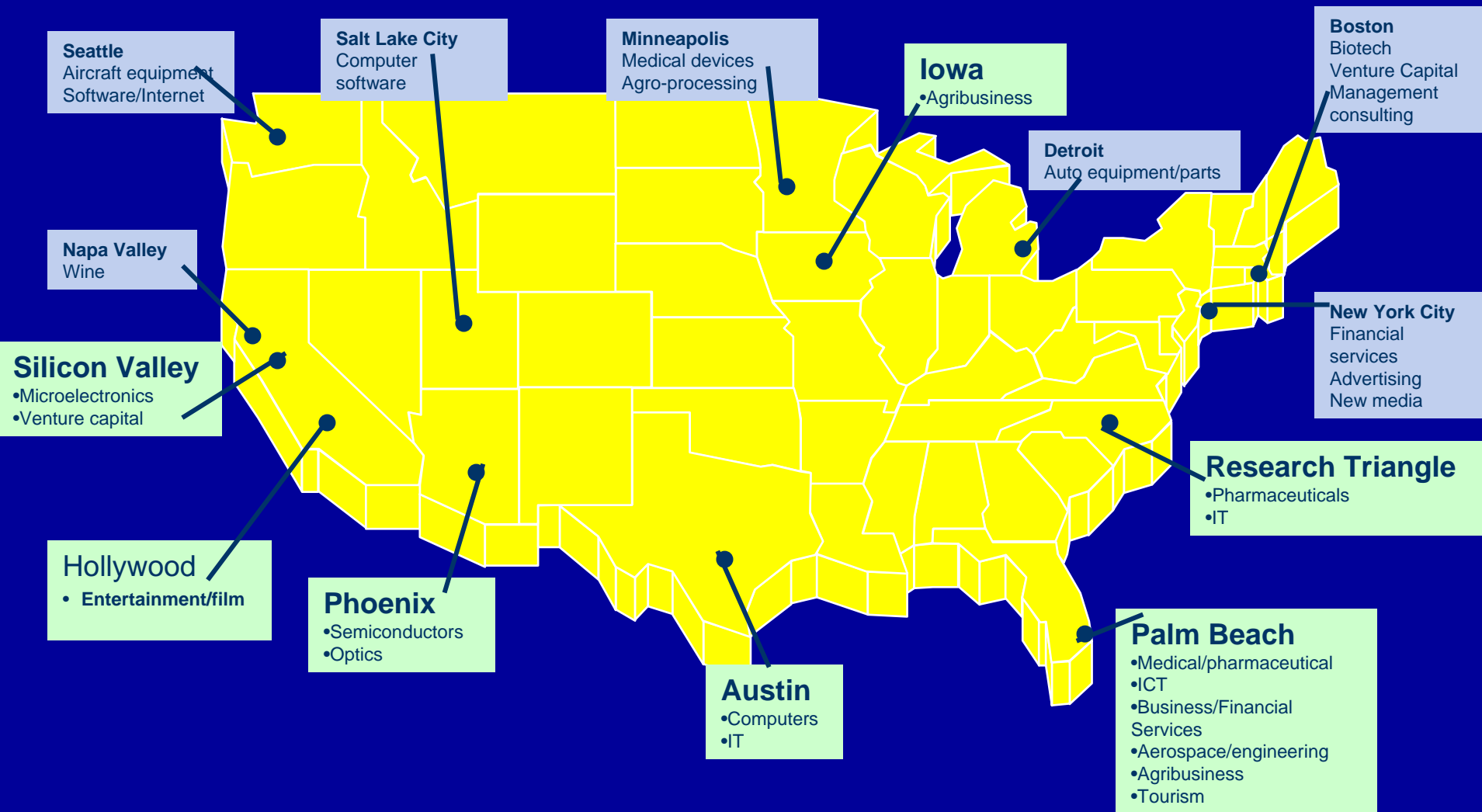
# Competitiveness Around the Globe

## Where?

- North America
  - Canada, Mexico, US
- Central and South America
  - Brazil, Colombia, Ecuador, El Salvador, Peru
- Europe
  - Ireland, Italy, Scandinavia, UK
- Asia/Pacific
  - Australia, India, New Zealand
- Africa
  - Morocco, Rwanda, South Africa

# Competitiveness Around the Globe

## Where?: The United States



# Competitiveness Around the Globe

## Where and Who?: Developed Countries

<b>City or Country</b>	<b>Year Begun</b>	<b>Key Player(s)</b>
Austin, TX	1984	Chamber of Commerce, city government
Hong Kong	1989	Hong Kong Economic Survey Ltd. (business and civic leaders)
Phoenix, AZ	1989	University of AZ Office of Econ. Development & Industry Cluster Development Program
Silicon Valley, CA	1992	Joint Venture Silicon Valley (business and civic leaders)
Ireland	1997	Forfás

# Competitiveness Around the Globe

## Where and Who?: Developing Countries

City/Country Region	Year Begun	Key Player(s)
Bangalore, India	1987	Business and civic leaders
Chihuahua, Mexico	1991	State of Chihuahua and business and civic leaders
Andean Region	1999- present	Andean Development Bank (CAF)
Central America	1995	INCAE (Latin Am. Center for Competitiveness and Sustainable Dev't.), CABEL, AVINA Fdn., private sector

# Competitiveness Around the Globe

## Key Points

- Worldwide phenomenon
- More than a decade of experience in some regions and countries
- Donor agency involvement is more recent

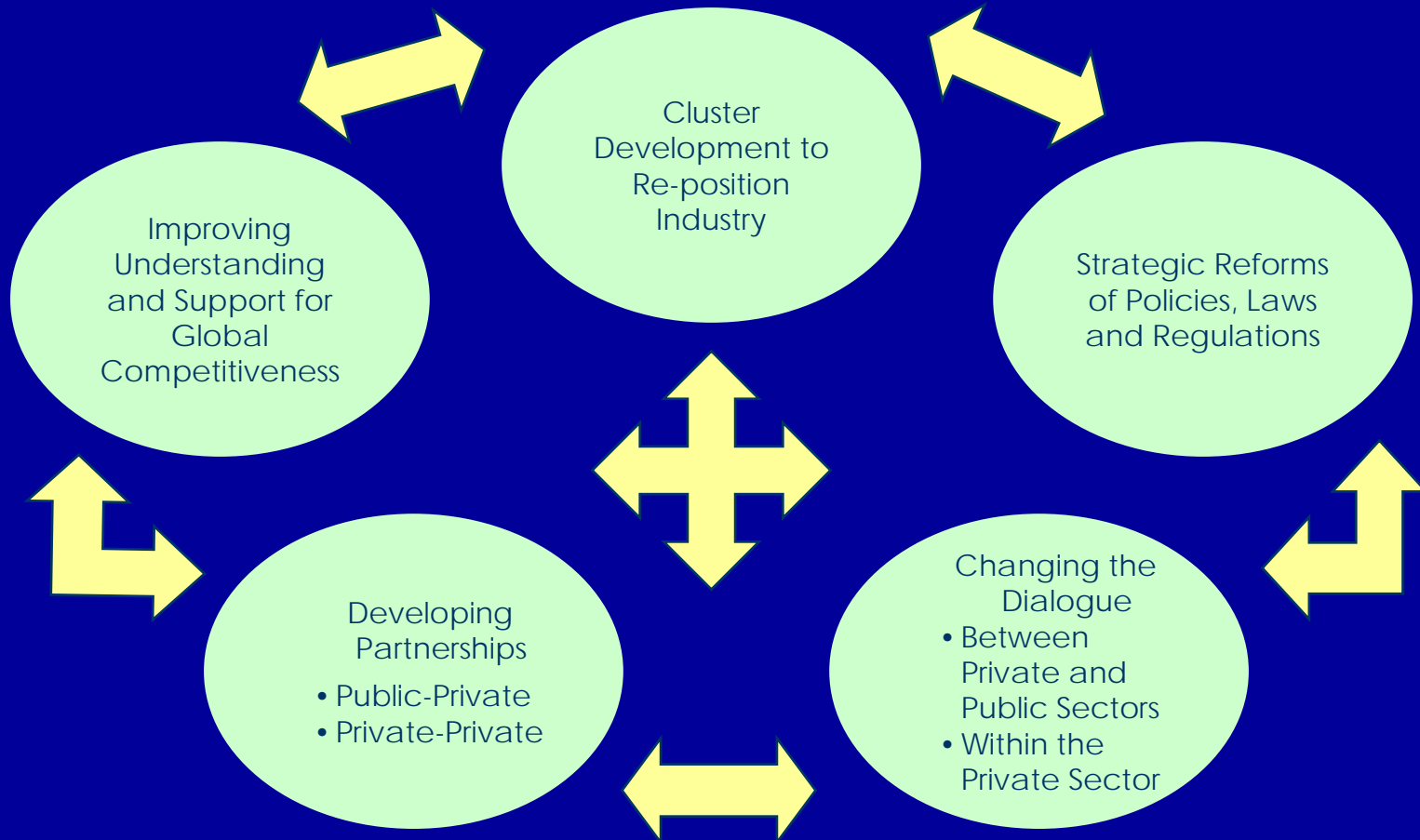
*And ...*

- Thorough investigation by team is on-going

# Parameters: What is a Competitiveness Initiative?

# What is a Competitiveness Initiative?

## Fundamental Components



# What is a Competitiveness Initiative?

## What's Different

- Unifying principle and framework for USAID's economic growth efforts
- Implementation phase activities draw from USAID's economic growth work
- Critical differences: process for determining activities ... and the resulting commitment and ownership



# What is a Competitiveness Initiative?

## Guiding Principles

1. **Premise:** local, regional and industry-level action is critical for competition
2. **Locus of action:** the cluster
3. **Fundamental focus:** building relationships -- up, down and sideways

# What is a Competitiveness Initiative?

## Guiding Principles (Continued)

4. **Central new idea:** learning how to collaborate in order to compete
5. **Essence:** a strategic planning process – a participatory, locally-driven strategic planning process.
6. **Roles:** Market commands...Private sector drives... Cluster navigates... USAID facilitates... Strategic process delivers... Public sector may or may not be involved

# What is a Competitiveness Initiative?

## Guiding Principles (Continued)

7. **Operational Mindset:** the strategic planning process delivers the results
8. **Sequence:** Business strategy drives changes in economic policy
9. **Goal:** Defining the “end-game” is part of the strategic planning process

# Competitiveness Methodologies

# Competitiveness Methodologies

## Key Findings

- Most USAID Contractors use a common approach, focused on cluster strategy and development
  - Contractors bring different sets of diagnostic and strategy tools ... but tools serve similar objectives
  - Contractors emphasize different dimensions in light of country context ... and their own vision of competitiveness
    - IBM/SRI
    - Nathan/JE Austin
    - Carana
- |                            |
|----------------------------|
| Workforce Development      |
| National-level Initiatives |
| Investment Promotion       |

# Competitiveness Methodologies

## Fundamental Phases

**Phase 1:** Conducting Initial Competitiveness Diagnostics

**Phase 2:** Identifying Clusters

**Phase 3:** Crafting Cluster Strategies

**Phase 4:** Implementing Cluster Strategies

**Phase 5:** Developing Exit and Sustainability Strategies

# Competitiveness Methodologies

## Phase 1: Initial Competitiveness Diagnostics

### Objective:

**Generate understanding of competitiveness principles**

### Key Actions:

- ▶ **Conduct a broad assessment of economic foundations**
- ▶ **Conduct competitiveness benchmarking against comparative or competitive peers**
- ▶ **Conduct intensive series of workshops to disseminate understanding of competitiveness and its relevance for the country**
- ▶ **Initiate media and university outreach**

# Competitiveness Methodologies

## Phase 2: Identifying Clusters

### Objective:

**Determine interest and commitment of clusters in participating in competitiveness initiative**

### Key Actions:

- ▶ **Conduct initial cluster analyses and assessments**
- ▶ **Conduct a second round of intensive workshops involving a broad cross-section of leaders and players**
- ▶ **Assess interest and commitment to competitiveness**
- ▶ **USAID makes a go or no-go decision on whether to proceed with a competitiveness initiative**



# Competitiveness Methodologies

## Phase 2: Identifying Clusters (Continued)

### Key Issues:

- ▶ Is there strong private sector interest in and commitment to collaborating as a cluster?
- ▶ How do you know whether you have commitment?
- ▶ Do you have the commitment of a cluster ... or a “club”? Are there prospects for broadening the cluster?
- ▶ Do you have champions in government?
- ▶ If USAID decides to proceed, how can momentum be sustained while moving to the next stage?

# Competitiveness Methodologies

## Phase 2: Identifying Clusters (Continued)

### Bottom Line:

- ▶ This is not about picking “winners” and “losers” ... unless USAID or the government actually selects a cluster irrespective of the cluster’s commitment to the process
- ▶ The cluster’s commitment needs to be assessed on an on-going basis

# Competitiveness Methodologies

## Phase 3: Crafting Cluster Strategies

### Objective:

Facilitate a strategic planning process that enables the cluster to define its common interests, its strategic vision, and an action plan

### Key Actions:

- ▶ Step 1 -- Cluster Formation
- ▶ Step 2 -- Cluster Analysis
- ▶ Step 3 -- Cluster Strategy and Action Plans

# Competitiveness Methodologies

## Phase 3: Crafting Cluster Strategies (Cont'd)

### Step 1: Cluster Formation

- ▶ Establish cluster working groups
- ▶ Conduct initial orientation and “process” sessions with the cluster
  - Introduce stakeholders to industry cluster technique and process
  - Define working group’s operating rules, roles and responsibilities
  - Define roles of the cluster and the contractor; manage expectations: “Small solutions, not grand illusions”

# Competitiveness Methodologies

## Phase 3: Crafting Cluster Strategies (Cont'd)

### Step 2: Cluster Analysis

- ▶ **Conduct in-depth and rigorous analysis of the industry cluster**
  - Evaluate the region's infrastructure to support the expansion of the cluster over time
- ▶ **Apply diagnostic tools**
  - "SWOT" analysis
  - Porter diamond
  - SRI cluster pyramid
  - Mapping of the cluster supply chain
  - Analysis of cluster drivers
- ▶ **Obtain cluster agreement and consensus on the diagnosis**

# Competitiveness Methodologies

## Phase 3: Crafting Cluster Strategies (Cont'd)

### Step 3: Cluster Strategy and Action Plan

- ▶ Vision: Cluster develops a consensus vision in as specific terms as possible
- ▶ Strategy: Cluster develops a selected set of achievable initiatives linked to the vision
- ▶ Tasks: Cluster identifies individual and institutional champions to carry out each initiative

# Competitiveness Methodologies

## Phase 4: Implementing Cluster Strategies

### Objective:

**Implement the action plan**

### Key Actions:

- ▶ **Individual and institutional champions need to take charge of the activities in their action plans**
- ▶ **Contractor supports cluster actions:**
  - Targeted technical assistance
  - Targeted training on industry best practices
  - International market research
  - Policy analysis
  - Facilitation of dialogue and engagement with government
  - Media outreach

# Competitiveness Methodologies

## Phase 4: Implementing Cluster Strategies (Cont'd)

### Key Issues:

- ▶ What should USAID fund and what should cluster members fund?
- ▶ Can USAID leverage other donors' assistance in supporting action initiatives?
- ▶ What is the role of American versus non-American consultants in providing technical assistance?
- ▶ Can the contractor provide the requisite industry expertise?



# Competitiveness Methodologies

## Phase 5: Developing Exit and Sustainability Strategies

### Objective:

**Assist clusters to develop strategies for steps following the close of USAID assistance**

### Key Actions:

- ▶ **Uncharted territory for USAID ... will soon learn a great deal from Sri Lanka**
- ▶ **Need to learn from the experiences of others**

# Results

# Results: Three Key Questions

- What kinds of results do we expect to see from a competitiveness initiative?
- What kinds of results have we seen to date?
- What is the gap?

# Types of Results Expected

**Practitioners of competitiveness initiatives expect the following types of results:**

1. Improved public and private understanding of competitiveness
2. Stronger cluster networks, resulting in closer buyer-seller, relationships, deal-making and partnerships
3. Improved skills of the cluster workforce
4. Increased cluster involvement in the policy-making process
5. Improvements in the efficiency and productivity of the value chain
6. Increased productivity at the firm level
7. Improved cluster competitiveness and growth demonstrated by increases in specific indicators

# Results to Date:

## The Most Important Result

**Clusters – often beginning as a few companies and associations operating in isolation and with conflicting agendas – have expanded and coalesced and are working together on cluster-wide initiatives.**

# Results to Date:

## The Most Important Result (Continued)

### **Mind-set Change**

- Recognition that cluster members actually do have common interests and common goals tied to improving competitiveness in the global economy.
- Recognition that no one firm can compete successfully in isolation. Need to collaborate to compete.

# Results to Date:

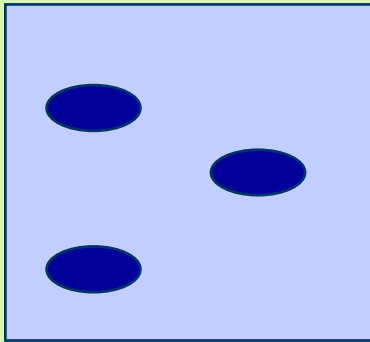
## The Most Important Result (Continued)

### **Operational Change**

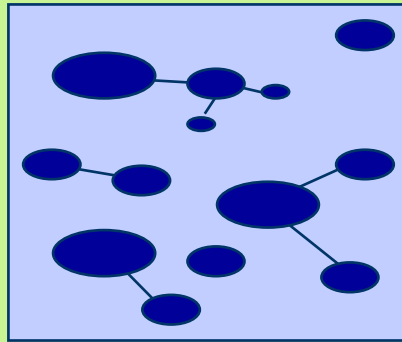
- Firms and institutions that never before interacted sit down at the same table to work on shared concerns. This also contributes to another mind-set change: increased trust.
- New and tangible partnerships and dialogue emerge that never existed previously.

# Results:

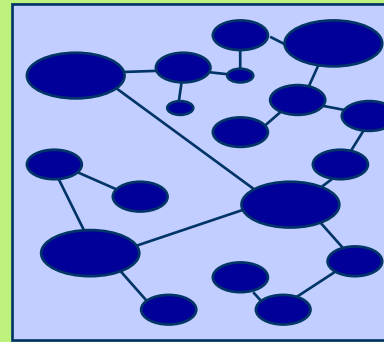
## Understanding the Cluster Life-Cycle



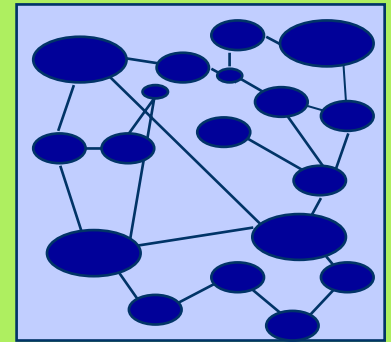
**Preclusters  
Independent  
Firms &  
Industries**



**Emerging  
Cluster  
Linkages, Firm  
Linkages, &  
Industry  
Concentration**



**Expanding  
Clusters &  
Growing  
Linkages**



**“Lift-Off” High  
Interfirm  
Linkages &  
Critical Mass**



# Results to Date:

## Example 1: Tourism Cluster in Sri Lanka

### Strategy:

To reposition the industry beyond low-cost “sun and sand” markets to higher end niches such as adventure and ecotourism in an improved policy environment.

### Initiatives:

- ▶ Creating a National Cycling Trail for adventure tourism, launched on Sept. 9, 2002
- ▶ Establishing Sri Lanka's first ecotourism lodge
- ▶ Creating strategies to promote Sigiriya Rock as Sri Lanka's national tourist icon
- ▶ Key policy initiatives
- ▶ Creating a private-sector led Tourism Promotion Authority, funded by a self-imposed cess
- ▶ Restructuring and upgrading the principal tourism training institute

# Results to Date:

## Example 2: Jewelry/Gem Cluster in Sri Lanka

### Strategy:

To reposition the industry to capture higher value added through unique designs, international certification of authenticity, new technology and workforce development

### Initiatives:

- ▶ Establishing the Gem and Jewelry Institute, a private-public partnership launched Aug. 2, 2002
- ▶ Purchasing laboratory testing and certification for industry-wide use, with funding generated by a public-private initiative
- ▶ Negotiated agreement with American Gemological Institute for R&D and certification
- ▶ Working to establish a “Design Alliance” to design/promote a line of Ceylon sapphires created by a globally renowned designer

# Results to Date:

## Examples from Lebanon and Mongolia

### **LEBANON: Agro-industrial cluster**

- ❖ Five companies displayed their products together under one Lebanese banner at the Fancy Food Show in New York

### **MONGOLIA: Cashmere cluster**

- ❖ Organized better internal markets for procurement, permitting Mongolian processors to purchase better quality material

### **MONGOLIA: Tourism cluster**

- ❖ Designed common theme and unified design to market Mongolia as an adventure tourism destination.
- ❖ Produced brochures and marketing pieces to be shared by entire tourism industry.

# Results:

## Gap Between Expected and Observed Results

### **Areas with clear and definitive results:**

- Improved public and private understanding of competitiveness
- Stronger cluster networks, resulting in closer buyer-seller relationships, deal-making and partnerships
- Increased cluster involvement in the policy-making process and evidence of policy and regulatory reforms implemented

### **Areas in which important cluster initiatives have begun, but where more work needs to be done to assess actual results:**

- Improved skills of cluster workforce
- Improvements in the efficiency of the value chain

# Results:

## Gap Between Expected and Observed Results (Cont'd)

**Areas in which the team does not have sufficient information at this time to determine or assess results:**

- Increased productivity at the firm level
- Improved cluster competitiveness and growth

**Factors affecting the issue above:**

- Many cluster initiatives are still unfolding. Impact-level results will require time to come to fruition
- None of USAID's competitiveness initiatives have systems for measuring progress and results
- While a great deal is known about cluster-wide initiatives, little is known about what firms are doing to change their own business strategies and operations as a result of competitiveness initiatives – and, if changes are being made, to what effect

# Lessons Learned

# Lessons Learned

## Lesson #1

The most important determinant of success is the “sweat equity” investment of the cluster.

- Cluster must be committed and willing to devote time, resources and, most importantly, “sweat equity”
- Cluster members must find common ground and define a common vision ... requires a major mind-set change
- Cluster development requires cooperative personalities and a willingness to commit time and resources for the greater good of the industry
- No “sweat equity” from the cluster? ... then move on to where there is real commitment ... this is “self-selection”

# Lessons Learned

## Lesson #2

While clusters may best be formed naturally, an external agent -- such as USAID -- can foster and support cluster development. External agents cannot force cluster development.



# Lessons Learned

## Lesson #3

It is preferable to work with a portfolio of clusters.

# Lessons Learned

## Lesson #4

The role of the USAID contractor is to facilitate  
-- but not drive -- the competitiveness initiative.

- **The private sector must own and drive the process**
- **No ownership ... no commitment ... no action ... no change**
- **Role of contractor is still critical**
  - Must be a trusted and honest broker
  - Must be fully committed -- 24/7 presence in most cases
  - Must blend strategic planning with in-depth industry expertise
  - Chief of party makes or breaks the project
- **USAID needs to understand and support a different role for the contractor**

# Lessons Learned

## Lesson #5

The timing of a competitiveness initiative is difficult to determine in advance.

- Initiatives proceed as fast -- or as slowly -- as the clusters are willing to go
- USAID or contractor efforts to jump-start the process usually backfire or produce temporary effects
- Competitiveness initiatives are poor candidates for performance-based contracting

# Lessons Learned

## Lesson #6

USAID should start small ... test the waters to ensure commitment ... but be prepared to move quickly on a longer-term commitment.

- A long hiatus between introducing and implementing competitiveness hurts the process
- Some hiatus is okay ... often has encouraged the private sector to take initial steps on its own

# Lessons Learned

## Lesson #7

A competitiveness initiative is a management-intensive activity for USAID and the contractor.

- The initiative involves leadership at all levels of the political and economic spectrum. USAID leadership needs to be engaged.
- The process cannot be determined in advance ... meaning both USAID and the contractor need to be closely attuned to signs of emerging problem.
- Varied, highly-specialized types of technical assistance are required ... meaning significant identification and recruitment efforts by the contractor and significant review and approval processes for USAID

# Lessons Learned

## Lesson #8

Competitiveness initiatives are not a quick-fix approach to economic growth issues ... and quantitative results will take time.

**Table Illustrating Catalytic Interaction between Contractor-Level and Participant-Level Events**

		Phase 1		Phase 2		Phase 3		Phase 4		Phase 5
Contractor Level		Conducting Initial Competitiveness Diagnostics		Identifying Clusters		Crafting Cluster Strategies		Implementing the Strategies		Exit & Sustainability
Key contractor actions from the model		.Economic Foundations .Benchmarking .Workshops .Outreach		.1 <sup>st</sup> Cluster analysis .2 <sup>nd</sup> Workshop series .Assess interest and commitment ."Go" or "no go"		.Cluster formation .Cluster Analysis .Cluster strategy & action plans		.Champions take charge .Contractors supports cluster actions		.Uncharted territory
Participant Level	IDENTIFY SELF AS BUSINESS	Understands the global marketplace and need for collective action	ATTITUDE CHANGES	Participates, then cooperates, with other cluster members  Builds relationships up, down and sideways  Gains trust	SELECTION	Identifies new behaviors collectively, at the firm and at institutional level	TAKE ACTION	Takes charge of activities in action plan	PROUDLY CHANGES	Creates new wealth. Responds to marketplace with higher value product Increases income Develops workforce Advocates new policies Etc.

# Critical Issues and Questions



# Critical Issues and Questions

## Issue #1

None of the USAID-funded competitiveness initiatives have adequate systems (or significant allocated resources) for project monitoring and evaluation.

- No progress indicators are in place to signal when projects are on -- or off -- track
- No systems are in place to systematically measure results ... results reporting is anecdotal or process-oriented

# Critical Issues and Questions

## Issue #2

What institutional mechanisms -- if any -- should be established to sustain cluster initiatives following USAID's investment?

- No definitive answers yet ... in Sri Lanka, each cluster is crafting its own strategy for sustaining cluster initiatives

# Critical Issues and Questions

## Issue #3

What is the role and value of national competitiveness councils?

- When is establishing a council an important part of the initiative?
- When should it be introduced?
- What is its link to cluster-based initiatives?

# Critical Issues and Questions

## Issue #4

How should USAID determine the funding level to allocate to a competitiveness initiative?

- Is there a danger of providing too much assistance in this type of initiative?

# Critical Issues and Questions

## Issue #5

One result observed from competitiveness initiatives is cluster collaboration on common issues. What is happening at the individual firm or institution level is not known.

- Are individual firms and institutions changing their strategies and operations in ways that will make them -- and the cluster -- more competitive?

Next Steps for the Team

# Next Steps for the Team

- Assessment of Competitiveness Initiatives: Overall Synthesis
- The Competitiveness Handbook: A Users Guide for USAID Economic Growth Officers
- Country Assessments and Case Studies:  
Mongolia, Campeche (Mexico)
- Mini-Courses for USAID's Economic Growth Officers